



The New Era of the Agile Supply Chain

In order to move forward, retailers are finding it increasingly necessary to look backward.

Having strategic vision in retail typically involves looking ahead and beyond the current state, but when it comes to the retail supply chain, clear vision can be gleaned by looking back—all the way back. Companies that can anticipate and react to consumer desires the quickest along the supply chain—and that do so seamlessly across channels—can win the loyalty of increasingly fickle and demanding customers. However, most retailers examine only the final links in the chain (from their DCs to stores to consumers) and thus they are missing opportunities to gain clarity and agility earlier on.

The ability to address questions such as where inventory is located; how to best use stores for fulfillment; whether transfers between DCs, stores and geographies can be minimized; and how to give customer service associates inventory visibility across regional stores is critical. With that, it is becoming increasingly important for organizations to look along the full length of the chain, not just from DCs, but from finished goods and raw material suppliers. (See Exhibit 1.) Enabling end-to-end supply chain visibility can provide the missing perspective needed to achieve true agility and a competitive advantage in today's fast-paced, global retail arena.

End-to-end visibility means different things to different companies. In fact, the definition of

visibility is often different even within an organization. It's no longer just about tracking and tracing shipments. The emerging definition of visibility includes insight into raw material origins, the status of products, orders and shipments, and streamlined access to information about product flow, delays, documents, inventory and costs. This information now feeds into decision making to help mitigate the impacts of demand spikes, supply disruptions and volatility associated with supply chains increasingly under stress from a number of factors, including the need to increase speed to market.

Today, best-in-class companies are beginning to leverage visibility to achieve clarity further back in the supply chain. They are creating the ability to make decisions further upstream to best satisfy changes in global customer demand.

HOW VISIBILITY POWERS AGILITY

Five key industry trends are compelling companies to consider end-to-end visibility and use it as a foundational enabler for various strategic initiatives. In the context of consumers' expectations for an omnichannel experience, the need is compounded even further.

1. Globalization of Supply
2. Globalization of Demand

Exhibit 1: Traditionally, retailers have thought only of the final links in the supply chain, but the new retail reality requires a view upstream of the entire chain.



3. Differentiated Speed-to-Market Operating Models
4. Evolution of Consumer Behavior
5. Penetration of Private Label

Globalization of Supply. Retailers are constantly looking for new markets from which to source. While China has been a dominant player in sourcing, the growing cost of labor there has companies increasingly exploring other options. In fact, the eighth annual Excellence in Global Sourcing Survey, produced by Kurt Salmon and *Apparel* magazine, found that global sourcing is moving toward a decentralized model for the first time in years as apparel companies work to improve speed, boost cost savings and improve efficiency in the supply chain. Moreover, retailers and wholesalers have found that the “lift and shift” model, where brands take a strategy and assortment designed for one region and apply it to another, is not working. Customized assortment is a necessity, further increasing the move to decentralized sourcing. As a result, having the right set of eyes to manage the supply chain has become critical. Increased globalization of the supply chain has also raised the importance of supplier relationship management (SRM), and it’s about more than just negotiating a good deal. With greater visibility into manufacturing, SRM can be a collaborative process that insulates suppliers from knee-jerk reactions in the supply chain and equips them with the flexibility to meet consumer demand.

Globalization of Demand. Many retailers have found that they are overstored in the United States. As a result, companies are increasingly looking overseas for top-line growth. Retailers considering or pursuing expansion abroad—whether through new stores, outlets, acquisitions or expanding e-commerce distribution channels—cannot do so successfully without visibility. With each new consumer touchpoint, siloed views and decision making become riskier and more costly. Leadership

teams can benefit from access to near real-time information about how products are performing in each market in order to navigate increasingly varied customer preferences, customs and processes and to make swift product flow decisions.

Differentiated Speed-to-Market Operating Models. With globalization, the flow of goods is directly impacted. Companies increasingly are relying on a broader set of options to address speed to market. Examples include reduced overall time from concept to delivery, reduced time from order to delivery, use of rapid replenishment models and optimal leverage of inventory in the network to best satisfy consumers’ needs (e.g., enhanced use of ship-from-store or in-store pickup). More partners are involved from an execution standpoint, resulting in more information barriers and bottlenecks to overcome. But companies simply can’t afford bottlenecks and delays. If consumers can’t find what they need when they need it, they are certain to turn to a competitor. As both sourcing and demand become more complex, visibility is a critical tool for retailers and wholesalers who need to understand lead times and inventory levels at various touchpoints so that they have the ability to make product flow decisions strategically.

Evolution of Consumer Behavior. Digital has in many ways spoiled shoppers. Consumers expect the right product at the right price in the right place at the right time in the right quantity with the right experience. Essentially, consumers expect a true omnichannel experience. To provide what customers want with newness, at an acceptable price for the brand value, anywhere, anytime, and reliably with relevance and authenticity is not an easy task. As retailers look to operationalize omnichannel, they are increasingly looking to empower their supply chain with visibility and with accurate and dynamic information across all partners.

Penetration of Private Label. Private labels make up a significant portion of many major retailers’ brands.

In fact, in September 2014, Macy's President Jeff Gennette said that private labels accounted for 50% of the brand's sales. Private-brand products are growing and, for many retailers, they are an important differentiator to gain customer loyalty. However, they are adding complexity in supply chain strategy. Companies can't have a single strategy across all brands because they are not sourced, designed or branded in the same way. Private brands expose companies to more extended supply chains and more suppliers, but give less control over inventory. Higher inventory levels to accommodate demand are a symptom and not a solution. Visibility can help protect and manage partners.

With the perfect storm of the above trends, retailers have much to gain from a more agile approach rooted in end-to-end visibility.

HOW TO ACHIEVE VISIBILITY

The promise of visibility lies in the critical data that resides in the supply chain—not within the business walls—across numerous partners, regions, cultures and time zones. Visibility requires a network capable of seamlessly collecting and distributing supply chain data. Companies are increasingly turning to cloud-based networks to realize this seamless flow, thus using an information model similar to that of social networks—one that supply chain networks can rely upon. Supply networks—just like social networks—are defined by their members. Cooperation with and adoption by partners are essential. And to do that supply chain networks must create a “win-win” scenario for each of them.

In addition, the quality of information being provided has to be consistently reviewed, analyzed and managed. Quality is defined as the timeliness, completeness and accuracy of data upon which decisions can be made in operations, execution and planning. A “garbage in, garbage out” scenario will not help the supply chain. It's not a one-time investment; data needs to be continuously refined to ensure accuracy. Visibility projects can fail when

participants lack confidence in the information presented. It requires tenacity on the part of the retailer and the technology provider and a commitment from all partners.

Creating end-to-end visibility not only requires technology, but a significant and consistent change in how people operate within both the retail organization and along the supply chain. A recent survey of retailers by Kurt Salmon found that most retailers and wholesalers aren't executing change effectively. Gaining buy-in across the entire supply network is critical to effecting change, and it won't happen without cross-functional executives advocating the transformation and holding people responsible.

Visibility impacts merchandizing, sourcing, product development, production planning, operations, supply chain, logistics, warehousing, store operations, customs, compliance, treasury, accounting and finance. It is a cross-functional initiative. When viewed only as a logistics or operations initiative, end-to-end visibility cannot be achieved.

It also requires a strategic mindshift from planning to planning and responsiveness. In the fast-fashion world, apparel brands traditionally have worked from their forecasts, planned for the season, allocated inventory as per prevailing demand and sent out orders for the season. Apparel brands traditionally focused on improving the forecast as the best method to drive responsiveness. However, orders change many times after submission, delivery dates change frequently, and rush orders and supply chain disruptions also impact the network. The reality is that planning will never be 100% accurate. Given this reality, it would bode well for retailers to forecast knowing that things will change and to be prepared to execute with agility. Responsiveness can give retailers a leg up in the planning and forecasting process.

THE IMPACT OF VISIBILITY

The key promise of visibility can be described by one word: agility. Visibility makes supply chains

THE IMPACT OF VISIBILITY

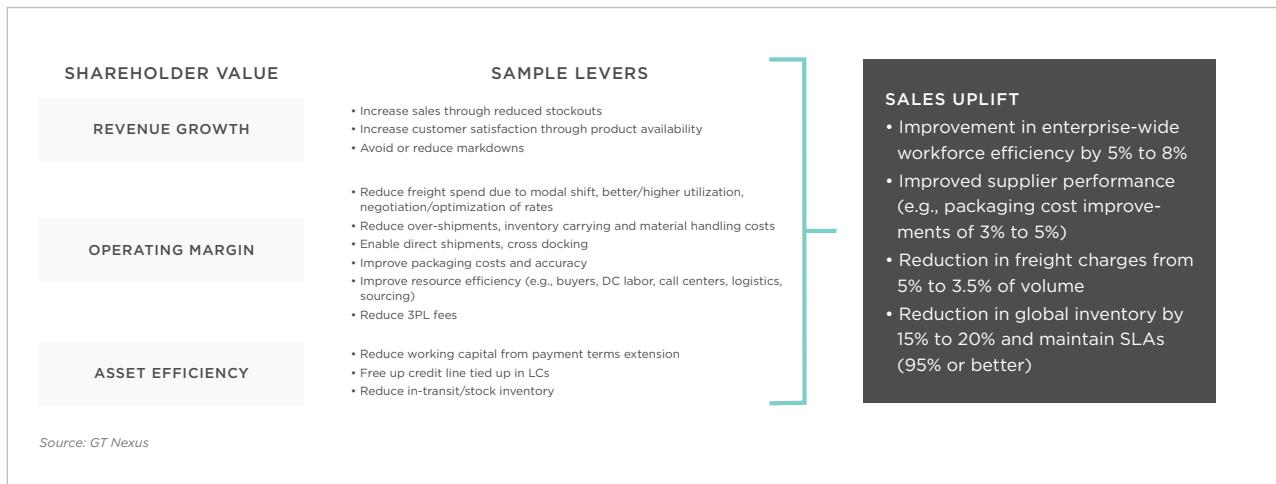


Exhibit 2: Visibility enables agility, and with it, significant improvements can be realized in sales, margins and asset efficiency—key drivers of shareholder value.

more nimble and responsive to demand, disruptions and network variability, allowing companies to move from static to dynamic product flow decisions.

By optimizing product flow, retailers can improve their ability to decrease costs, improve speed to market and, ultimately, meet customer needs.

Successful alignment of product flow based on product attributes can yield profitability gains while lowering inventory and out-of-stocks. (See Exhibit 2.)

Regardless of strategies under consideration like flow through, vendor drop ship, DC replenishment, or hold and flow, visibility gives retailers greater flexibility to make changes and to better leverage resources within the product flow. For example, when retailers have access to visibility data such as container tracking and cargo dwell times, their in-transit inventory becomes a virtual, moving warehouse because they know where the product is at all times and can direct it (or redirect it) as needed. Retailers can glean accurate lead times, rather than relying on historical information, and make smarter inventory decisions that will reduce ongoing carrying costs and be subject to less variability. And, importantly, they can make swift

changes and reroute products while they're on the water.

The retail space is changing and we expect to see more enterprises leverage end-to-end visibility to become adaptable, thus gaining an advantage in a fiercely competitive industry. ♦

VISIBILITY IN ACTION

Consider a scenario where a U.S. retailer who sells globally is seeing spikes of demand in Europe and slowing sales in the United States, but the bulk of their inventory is sitting in U.S. DCs and stores. They're marking down in U.S. stores and missing sales opportunities abroad. With visibility, this store could make better decisions upstream to allow them to allocate products not when they make the purchase order, but later and closer to the point of demand. Better upstream decisions allow for better downstream results.



Success for what's next

Kurt Salmon is a global management consulting firm dedicated to building the market leaders of tomorrow. More than just partnering with our clients, we ally with them, integrating ourselves seamlessly into their organizations in order to develop innovative, customized solutions for their 21st-century business issues.

Succeeding in today's increasingly complex, consumer-driven environment is an enormous challenge.

But companies need to look beyond today; they need to position themselves for continued success in the even more uncertain future. That's where Kurt Salmon comes in.

We call it delivering "success for what's next." The results are transformative.



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